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SUBJ: BANGLADESH ECONOMIC PERFORMANCE, 1975, AND PROSPECTS

1. SUMMARY. THE BANGLADESH ECONOMY IMPROVED OVERALL IN CY 1975 THANKSTO A BUMPER RICE CROP, AND A HALT TO INFLATION. NEW ECONOMIC POLITICIES HIGHLIGHTED BY DEVALUATION IN MAY, WERE PURSUED WITH REMARKABLE CONSISTENCY THROUGH THREE VIOLENT CHANGES OF GOVERNMENT. HOWEVER, EXPORTS REMAINED DEPRESSED, THREATENING REDUCED IMPORT FLEXIBILITY IN FY '77 AND BEYOND, AND DEVELOPMENT PERFORMANCE, IN PARTICULAR AID UTILIZATION, WAS UNSATISFACTORY. LITTLE PROGRESS IN ADDRESSING THE POPULATION EXPLOSION HERE JEOPARDIZED CHANCES OF SOLVING BANGLADESH'S MASSIVE LONG-TERM ECONOMIC DEVELOPMENT PROBLEMS. THE OUTLOOK ALSO REMAINS CLOUDED BY POLITICAL UNCERTAINTIES. WE SEE LITTLE PROMISE FOR US INVESTORS OR EXPORTERS. END SUMMARY.

2. OVERALL ACHIEVEMENTS. THE YEAR 1975 SAW TWO OUTSTANDING

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ECONOMIC ACHIEVEMENTS IN BANGLADESH. FIRST, FOOD PRODUCTION ROSE

TO A RECOD LEVEL (WHICH CARRIED GDP UP) AND SECOND A STABILIZATION PROGRAM WAS SUCCESSFULLY UNDERTAKEN. THE FIRST ACHIEVEMENT REFLECTS GOOD WEATHER, ABSENCE OF NATIONAL DISASTERS, AND FARMERS' RESPONSE TO THE PREVIOUSLY PREVAILING HIGH PRICE OF RICE. SUCH CAUSES REFLECT NO PARTICULAR CREDIT ON BDG POLICY MAKERS NOR IMPLY ANY PERMANENT CHANGE IN AGRICULTURE OR THE LAUNCHING AND EXPANSION OF A GREEN REVOLUTION HERE. ON THE OTHER HAND, THE CONSISTENT IMPLEMENTATION OF THE STABILIZATION PROGRAM AND WITHIN THAT, THE CONTROL OF INFLATION, DOES DESERVE SOME KUDOS.

3. THE BEST MEASURE OF THESE DEVELOPMENTS IS TO RELATE THEM TO THE BDG'S OWN STATEMENT OF ITS GOALS IN THE FINANCE MINISTER'S JUNE 11 LETTER REQUESTING A STAND-BY ARRANGEMENT WITH IMF. GDP WAS TO RISE 6 PERCENT (1975/76); WE TENTATIVELY ESTIMATE THAT IT EXCEEDED THIS GOAL DUE PRIMARILY TO GOOD WEATHER, AS ABOVE. INFLATION WAS TO BE REDUCED TO 8 TO 10 PERCENT; IT HAS BEEN HELD TO ZERO. THE INDICES FOR DECEMBER, 1974 WERE 75 PERCENT ABOVE THOSE FOR DECEMBER, 1973; WE EXPECT, OVERALL, THOSE FOR DECEMBER, 1975 WILL BE NO HIGHER THAN IN DECEMBER, 1974.

4. INDEED, THE ENTIRE STABILIZATION PROGRAM HAS BEEN CARRIED OUT REMARKABLY CONSISTENTLY THROUGH THREE VIOLENT CHANGES IN GOVERNMENT. DEFICIT FINANCING IS BEING AVOIDED FOR THE SECOND CONSECUTIVE FISCAL YEAR AND THE OVERALL CREDIT CEILINGS AGREED UPON WITH THE IMF ARE BEING OBSERVED. THE EXERCISE OF FIRM DISCIPLINE BY THE CENTRAL BANK AND FINANCE MINISTRY TO LIMIT SPENDING BY THE NATIONALIZED SECTOR AND OTHER GOVERNMENT MINISTRIES REFLECT CONSIDERABLE CREDIT ON SUCCESSIVE BDG LEADERS IN A COUNTRY CHARACTERISTICALLY LACKING IN DISCIPLINE. SUCCESSIVE GOVERNMENTS HAVE ALSO DEMONSTRATED A GREATER WILLINGNESS TO RELY ON THE PRIVATE SECTOR AND MARKET FORCES GENERALLY.

5. MAJOR DISAPPOINTMENTS. IN AN IMPORTANT SENSE, HOWEVER, THE STABILIZATION PROGRAM HAS YET TO SUCCEED. A MAJOR PURPOSE WAS TO INCREASE THE BDG CONTRIBUTION TO ITS OWN DEVELOPMENT EFFORT BY MOBILIZING ADDITIONAL DOMESTIC RESOURCES AND COMBINING THESE WITH GENEROUS AID FLOWS TO ACHIEVE THE FIRST YEAR OF EFFECTIVE ECONOMIC DEVELOPMENT IN THE POST-INDEPENDENCE PERIOD. WHILE DONORS HAVE CONTINUED TO RESPOND GENEROUSLY, AND THE BDG AVOIDED DEFICIT FINANCING, AID DISBURSEMENTS ARE LAGGING BADLY. IN THE FIRST HALF OF THE CURRENT FISCAL YEAR, THE FINANCE MINISTRY HAS RELEASED LIMITED OFFICIAL USE

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ONLY ABOUT ONE THIRD OF THE RESOURCES TO FUND DEVELOPMENT EXPENDITURES

AGAINST EXPECTED EXPENDITURES OF 45 PERCENT OF THE FY '76 TOTAL DEVELOPMENT PLAN. THE ENORMOUS PIPELINE WHICH STOOD AT \$1.2 BILLION ON JULY 1, 1975 IS BEING DRAWN DOWN ONLY VERY SLOWLY. AT CURRENT DISBURSEMENT RATES, IT WILL TAKE NEARLY A DECADE TO SPEND IDA PROJECT COMMITMENTS. AND, ONCE AGAIN IN FY '76, TOTAL FOREIGN AID DISBURSEMENTS WILL EXCEED THE VALUE OF THE DEVELOPMENT PROGRAM.

6. A FUNDAMENTAL REASON FOR THIS FAILURE TO PROCEED WITH ECONOMIC DEVELOPMENT IS LACK OF MANAGERIAL TALENT, OPERATING IN AN ENVIRONMENT OF INSTABILITY. TRAINED BANGLADESHIS HAVE BEEN LEAVING BANGLADESH FOR YEARS, AND LATEST EXAMPLES OF POLITICAL UNREST HAVE ENCOURAGED THE EXODUS.

7. MORE BASIC STILL IS THE LACK OF CLEAR POLITICAL DIRECTION ON THE DEVELOPMENT SIDE, WHICH HAS LEFT EVEN TALENTED BUREAUCRATS FRUSTRATED, OR OPERATING IN A VACUUM. UNDER MUJIB, THIS ABSENCE OF DIRECTION WAS PRONOUNCED, WITH THE NEVER-DEFINED QTE COMPULSORY COOPERATIVES UNQTE A PROMINENT EXAMPLE OF THIS AS IS THE COMPLETE INEFFECTIVENESS OF THE PROJECT IMPLEMENTATION BUREAU. THE FACT OF THE FREQUENT CHANGES OF GOVERNMENT NEED NOT, OF ITSELF, BE A CASE. AS NOTED, MONETARY POLICIES HAVE BEEN FOLLOWED CONSISTENTLY. MOREOVER, SINCE AUGUST 15, AND PARTICULARLY SINCE NOVEMBER 7, DECISIONS HAVE COME MORE RAPIDLY. BUT THE SUCCESS IN CREDIT CONTROL AND HALTING INFLATION HAS NOT BEEN MATCHED IN PROJECT AND COMMODITY AID UTILIZATION OR IN POPULATION CONTROL. THE PRESENT INTERIM GOVERNMENT HAS ACTED ON LONG-PENDING MATTERS, SUCH AS NATIONALIZATION COMPENSATION, HAS FOLLOWED POLICIES OF ITS PREDECESSORS, AS IN THE STABILIZATION PROGRAM, HAS SHOWED GREATER WILLINGNESS TO RELY ON THE PRIVATE SECTOR, AND MAY TAKE AS BOLD A STEP AS TAXING AGRICULTURE. THESE ARE PRAISE-WORTHY, BUT THEY DON'T YET ADD UP TO A COMPLETE, CONSISTENT DEVELOPMENT STRATEGY. THE REVISED 3-YEAR PLAN, MOOTED AT THE BANGLADESH AID GROUP MEETING IN PARIS, HAS YET TO APPEAR. NOR DOES SUCH AN OVERALL STRATEGY APPEAR LIKELY TO BE SET FORTH BY A SELF-PROCLAIMED INTERIM GOVERNMENT. WHAT DOES APPEAR POSSIBLE IS THAT THE PRESENT GOVERNMENT, WHICH IS AT LEAST AS WILLING TO ACCEPT WESTERN ECONOMIC ADVICE AS ITS PREDECESSORS AND SOMEWHAT QUICKER TO TAKE DECISIONS, WILL TAKE FURTHER IMPORTANT POLICY DECISIONS AFFECTING INDIVIDUAL SECTORS.

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8. THE SECOND MAJOR AREA OF DISAPPOINTING PERFORMANCE IS POPULATION CONTROL. POPULATION GROWTH AT 3 PERCENT ANNUALLY IS, OVER THE LONGER TERM, INEXORABLY OUTSTRIPPING DOMESTIC GOODGRAIN AVAILABILITIES (GROWING AT 1 PERCENT), EVER WIDENING THE GAP TO BE FILLED BY IMPORTS. DESPITE AN INCREASE IN PRESIDENTIAL RHETORIC IN THE FIRST HALF OF CY 1975 AND THE SIGNING OF A MAJOR POPULATION PROGRAM LOAN

WITH IBRD IN THE SECOND HALF, NO EFFECTIVE STEPS IN IMPLEMENTING PROGRAMS IN THIS CRITICAL FIELD WERE TAKEN. FAILURE TO CONTROL POPULATION GROWTH IN BANGLADESH INEVITABLY JEOPARDIZES THE MODEST HOPES OF SOLVING THE MASSIVE LONG-TERM ECONOMIC DEVELOPMENT PROBLEMS HERE.

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9. A THIRD MAJOR DISAPPOINTMENT IS THE EXPORT PERFORMANCE AND BALANCE OF PAYMENT OUTLOOK. IN 1960/70, EXPORT RECEIPTS INCLUDING SALES TO WEST PAKISTAN, WERE VALUED AT \$542 MILLION. FOR 1973/74, 74/75 AND 75/76 THEY ARE VALUED AT \$318, \$337 AND UNDER \$350 MILLION RESPECTIVELY. DEVALUATION HAS GIVEN EXPORT NO SIGNIFICANT BOOST TO DATE. IN FY '76, BANGLADESH WILL DRAW DOWN FOREIGN EXCHANGE RESERVES BY ABOUT \$150 MILLION AND DRAW \$100 MILLION FROM THE IMF. THUS, BANGLADESH WILL ENTER FY '77 WITH JUST OVER \$100 MILLION IN RESERVES, AND ONLY A FOURTH TRANCHE OF \$38 MILLION POTENTIALLY AVAILABLE FROM THE IMF. NOR DOES THE WAGE-EARNERS SCHEME OFFER MUCH SCOPE FOR RELIEF. IT FINANCES IMPORTS WORTH A MERE 15 PERCENT OF THE TOTAL CASH BUDGET. ANOTHER YEAR OF EXPORT STAGNATION WILL LEAVE BANGLADESH WITH LITTLE FREE FOREIGN EXCHANGE AFTER FINANCING OIL IMPORTS TO IMPORT SUCH LUXURY QTE NECESSITIES UNQTE AS TOBACCO, BABY FOOD, MEDICINES, AND OTHER CONSUMER GOODS FOR THE MIDDLE CLASS WHICH IS IMPORTANT POLITICALLY AND ALSO FOR ITS MANAGERIAL TALENT. AS THIS OUTLOOK FOR FURTHER SHORTAGE BECOMES REALITY, THE PROSPECTS

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FOR INSTABILITY, CAPITAL FLIGHT BY THE FEW REMAINING ENTREPRENEURS
AND BRAIN DRAIN INCREASE.

10. REVIEW AND COMMENTARY ON SPECIFIC SECTORS.

AGRICULTURE. (A) FOODGRAINS. PRODUCTION OF FOODGRAINS, ESTIMATED AT 13.0 MILLION METRIC TONS(MMT) FOR FY '76, PLUS IMPORTS OF AROUND 1.75 MMT WILL FEED THE THEORETICAL AVERAGE BANGLADESHI BETTER THAN IN ANY YEAR SINCE INDEPENDENCE. THE SUMMER(AUS) CROP ESTIMATED AT 3.2 MMT AND THE WINTER (AMAN) CROP AT 7.2 TO 7.5 MMT, ENSURES THAT MANY RURAL BANGLADESHIS, WHO COMPRISE 90 PERCENT OF THE POPULATION, WILL EAT ENOUGH DURING 1976. FACTORS CONTRIBUTING TO THESE RECORD HARVEST INCLUDE THE ABSENCE OF NATURAL DISASTERS, GOOD WEATHER, AND HIGH RICE PRICES. THIS DOES NOT SUGGEST THAT THE GREEN REVOLUTION IS PREDOMINANT IN BANGLADESH, BUT THE RECORD AUS (SUMMER) AND AMAN (WINTER) CROPS, FOLLOWING THE EXTREMELY HIGH RICE PRICES PREVAILING IN FY'75 IMPLY A WILLINGNESS AMONG FARMERS TO GROW RICE FOR MARKET WHEN THE PRICE IS HIGH. FOODGRAIN AVAILABILITY FOR THE TEN TO TWENTY PERCENT OF THE POPULATION WHICH BENEFITS FROM THE RATION SYSTEM AND/OR LIVES IN THE MAJOR CITIES IS ALSO AT A POST-INDEPENDENCE PEAK. THE POST-MUJIB GOVERNMENTS' ANTI-SMUGGLING EFFORTS HAVE BEEN A FACTOR HERE. JULY-DECEMBER, 1975 OFFTAKES AT ONE MILLION METRIC TONS WERE MODESTLY ABOVE THE 950,000 MT DISTRIBUTED JULY-DECEMBER, 1974. END-DECEMBER 1975 STOCKS AT AN ESTIMATED 850,000 MT, HOWEVER, WERE A WHOPPING 650,000 MT ABOVE THE END-1974 STOCK LEVEL. RICE PRICES IN DACCA WERE ONLY ONE HALF THEIR DECEMBER, 1974 LEVEL, AND ONLY TWICE THE SUBSIDIZED RATION PRICE. THE LOW MARKET PRICE AROUSED CONCERN ABOUT THE POSSIBLE DISINCENTIVE TO FARMERS, BUT RAISED HOPES OF A RETURN TO LARGER JUTE ACREAGE. FERTILIZER IS AT LAST WIDELY AVAILABLE AT THE CONTROLLED PRICE AND WILL NOT LIMIT FARMER'S OUTPUT IN THE BORO (SPRING) CROP. (B) SWARNIVAR PROGRAM. THIS SELF-HELP EFFORT HAS YET TO MOVE FROM EXHORTATION TO MEASURABLE PERFORMANCE. (C) RATION SUBSIDY. THE MODEST INCREASES IN THE ISSUE PRICES OF WHEAT AND RICE (DACCA 6278) REDUCE THE SUBSIDY BURDEN BY PERHAPS 10 PERCENT EACH MONTH. HOWEVER, THE CURRENT LOW RICE PRICE IS SEEN BY GOVERNMENT LEADERS AS A MAJOR FACTOR IN THEIR POPULARITY AND SEVERAL SENIOR BDG OFFICIALS TELL US, THOSE LEADERS WISHED TO TEST THE REACTION TO A MODEST RISE BEFORE ANNOUNCING FURTHER INCREASES. SUCH OFFICIALS VIRTUALLY ASSURE US FURTHER RATION PRICE RISES WILL BE ANNOUNCED BEFORE THE MAY BANGLADESH AID GROUP MEETING.

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11. JUTE (A) RAW JUTE PRODUCTION. THE HIGH RICE PRICE PREVAILING IN EARLY 1975, AND HENCE PROFITABILITY OF CULTIVATING PADDY RELATIVE TO JUTE LED FARMERS TO PLANT ONLY 1.2 MILLION ACRES OF JUTE

IN 1975, BUT GOOD WEATHER SAW 4.5 MILLION BALES PRODUCED AGAINST A 1974 HARVEST ESTIMVZED AT 3.9 MILLION. THIS QUANTITY WAS WELL BELOW THE SIX TO SEVEN MILLION BALE CROPS OF THE 1960'S. 1975 RPO-DUCTION PLUS CARRYOVER STOCKS WILL POSE NO RESTRICTION ON THE SUPPLY SIDE TO MEETING THE MODEST 2 MILLION BALE (OF 400 POUND) EXPORT TARGET AND SUPPLYING THE JUTE MILLS.

(B) RAW JUTE EXPORT. WITH DEVALUATION, RAW JUTE PRICES HAVE BEEN BROUGHT DOWN FROM A 1974 HIGH OF POUND STERLING 200/TON TO 155 AND THE TRADE MONOPOLY OF THE JUTE EXPORT CORPORATION ABOLISHED. JUNE TO OCTOBER 1975 EXPORT REGISTRATIONS, AT JUST OVER A MILLION BALES, ARE EQUAL TO THE TOTAL REGISTERED FOR EXPORT IN THE TWELVE MONTHS PRECIDING THE MAY, 1975 DEVALUATION. FOREIGN EXCHANGE RECEIPTS, WHICH LAG BEHIND SALES ARE, HOWEVER, RUNNING BELOW THE 1974/75 TOTAL OF ALMOST \$100 MILLION, AND WILL PROBBLY NOT EXCEED \$90 MILLION FOR FY'76.

(C) JUTE GOODS. DOMESTIC PRODUCTION OF JUTE GOODS OTHER THAN SACKING IMPROVED FROM RECENT WORLDWIDE RECESSION LOWS. PRODUCTION IN 75/76 IS EXPECTED TO EXCEED THE 444,000 TONS PRODUCED IN 74/75, BUT WILL STILLBE WELL BELOW THE PRE-INDEPENDENCE 69/70 FIGURE OF 620,000. DEVALUATION IS EXPECTED TO ENABLE THIS MAJOR INDUSTRY TO NEABY BREAK EVEN, PERHAPS SHOWING AS LOW A LOSS AS TAKA 150 MILLION IN FY '76 AS AGAINST THE 574 MILLION LOSS IN FY '75.

(D) JUTE GOODS EXPORTS. EXPORTS ARE IMPROVING. EXPORT REGISTRATIONS FOR JUTE GOODS FOR JULY-OCTOBER, 1975 ARE RUNNING ABOUT 20 PERCENT ABOVE THEIR LEVEL FOR THE COMPARABLE MONTHS OF 1975; SALES VOLUME LOOKS TO IMPROVE IN FY '76 FROM FY '75 LOWS. HOWEVER, PRICES ARE WELL DOWN AND TOTAL EXPORT EARNINGS ON PAYMENTS BASIS, WILL RPO-BABLY BE ONLY \$180 MILLION AGPUNST THE FY '75 TOTAL OF \$191 MILLION.

12. INDUSTRIAL PRODUCTION. PERFORMANCE IN THIS SECTOR IS MIXED, WITH SELECTED INDUSTRIES SHOWING CONSIDERABLE IMPROVEMENT OVER 1974/75. HOWEVER, OVERALL INDUSTRIAL PRODUCTION IS PROBABLY STILL RUNNING AT A MERE 80 PERCENT OF ITS 1969/70 LEVELS

13. BUDGET OUTLOOK. (A) GENERAL. TAX REVENUES FOR THE FIRST FIVE MONTHS OF FY '76 SUGGEST THAT THESE WILL ABOUT EQUAL THE BUDGET ESTIMATE OVER THE YEAR; REVENUE EXPENDITURES ALSO APPEAR TO BE LIMITED OFFICIAL USE

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ROUGHLY ON TARGET. HOWEVER, IBRD MISSION OFFICIALS NOW ESTIMATE AID DISBURSEMENTS AT ONLY \$9000 MILLION (AGAINST THE \$1.1 BILLION FORE-CST LAST SPRING) AND DEVELOPMENT EXPENDITURES ARE RUNNING DIS-APPOINTINGLY BEHIND THE TAKA 9.5 BILLION (UNDER \$670 MILLION) TARGET ESTIMATE. THIS IS PARTICULARLY DISCOURAGING WHEN ONE RECALLS EARLIER HOPES THAT AID UTILIZATION MIGHT BRING DEVELOPMENT OUTLAYS UP TO AS MUCH AS TAKA 11 BILLION IN FY '76. THE BDG IS HOLDING TO ITS COMMITMENT TO THE IMF TO BALANCE ITS BUDGET IN FY '76. THIS WOULD BE THE SECOND CONSECUTIVE YEAR OF AVOIDING ANY SIGNIFICANT DEGREE OF DEFICIT FINANCING.

(B) DEVELOPMENT EXPENDITURES ARE LAGGING FOR A COMBINATION OF REASONS. BDG ADMINISTRATIVE PROBLEMS HEAD THE LIST WITH THE COMPLETE INEFFECTIVENESS OF THE PROJECT IMPLEMENTATION BUREAU MERELY THE LAST DISAPPOINTMENT. THE CURRENT IBRD STRATEGY IS APPARENTLY (DACCA 6148) TO ENCOURAGE TECHNICAL ASSISTANCE TO OVERCOME THE BRAIN-DRAIN SHORTAGE

OF COMPETENT ADMINISTRATIVE. WE WOULD SUGGEST THAT ENCOURAGING THE CURRENT TREND TOWARD GREATER RELIANCE ON THE PRIVATE SECTOR WOULD BE A FAR MORE IMMEDIATELY EFFECTIVE APPROACH, DESPITE THE RISK OF SOME CAPITAL FLIGHT. OTHER, SHORT-TERM FACTORS INCLUDE INCREASINGLY RIGID REQUIREMENTS LIMITING THE USE OF COMMODITY AID BY DONORS WHO HAVE SEEN FLEXIBLE PROCUREMENT PROCEDURES ABUSED.

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14. BALANCE OF PAYMENTS. WE ESTIMATE TOTAL EXPORTS, INCLUDING BARTER AND INVISIBLES WILL EARN ABOUT \$350 MILLION THIS YEAR, TO WHICH WE MAY ADD THE IBRD ESTIMATE OF \$900 MILLION IN AID DISBURSEMENTS, \$105 MILLION FROM THE IMF AND RESERVE DRAW DOWNS OF \$100 MILLION.

FROM THESE AMOUNTS WE MAY SUBTRACT DEBT SERVICE PAYMENTS OF \$75 MILLION, AUSTRALIAN WHEAT PAYMENTS OF \$50 MILLION AND PERHAPS \$4 MILLION FOR COMPENSATING FOREIGN SHAREHOLDERS OF NATIONALIZED PROPERTY FOR A ROUGH NET TOTAL OF \$1.3 BILLION AVAILABLE TO FINANCE IMPORTS INCLUDING INVISIBLES. THIS TOTAL IS OBVIOUSLY HIGHLY SENSITIVE TO ANY CHANGES IN PROJECTED AID DISBURSEMENT LEVELS, WHICH INCLUDE AROUND \$350 MILLION IN FOOD AID, ONE QUARTER OF WHICH IS EXPECTED TO COME FROM U.S. IMPORTS AT \$1.5 BILLION WOULD BE NO HIGHER IN FINANCIAL TERMS THAN IN FY'75, THE MORE DISAPPOINTING IN THE LIGHT OF THE EXPECTATIONS OF GREATER AID DISBURSEMENTS. HOWEVER, THE VOLUME OF IMPORTS, THANKS TO FALLING WORLD COMMODITY LIMITED OFFICIAL USE

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PRICES WILL BE HIGHER THAN IN 1974/75. WHILE IMPORT LICENSE ISSUED IN THE JULY -DECEMBER, 1975 SHIPPING PERIOD LAGGED BEHIND THE TARGET, MORE IMPORTED GOODS ARE AVAILABLE IN LOCAL MARKETS AND THE PREMIUM ON SUCH LICENSES HAS, ACCORDING TO THE FOREIGN TRADE SECRETARY DISAPPEARED.

15. A WORD ON CORRUPTION. CORRUPTION, ENDEMIC TO THIS SOCIETY, HAD REACHED UNPARALLELED HEIGHTS UNDER MUJIB, BUT NOW APPEARS LESS PREVALENT OR SERIOUS; THE MARTIAL LAW ADMINISTRATION HAS MADE A POINT OF STRESSING ITS EVENHEADEDNESS AND THERE ARE NO SIGNS YET OF UNDUE INFLUENCE PEDDLING. WE DOUBT, HOWEVER, THAT THE RHETORIC OF THE POST-AUGUST 15 GOVERNMENTS OR ITS ACTIONS FULLY EXPLAIN THE PERCEIVED DECLINE. RATHER, WITH THE DEATH OF MUJIB AND THE END OF HIS GOVERNMENT, IMPORTANT POLITICAL AND PATRONAGE CONNECTIONS WERE SNAPPED AND HAVE YET TO BE REPLACED BY NEW ONES. THUS, SMUGGLING HAS DECLINED NOT ONLY BECAUSE THE BDR APPEARS TO BE MORE EFFECTIVE THAN HITHERTO, BUT BECAUSE THE SMUGGLER NO LONGER ENJOYS PROTECTION FROM DACCA. ALSO, BUREAUCRATS ARE HESITANT UNDER THE MAL TO TAKE BRIDES, FOR FEAR OF ARREST. WHILE WE DO NOT FORESEE A RETURN TO THE EXCESSES OF MUJIB PERIOD, THIS CONCOMITANT OF DOING BUSINESS IN BANGLADESH MAY LIKELY REASSERT ITSELF TO SOME FURTHER DEGREE AS THE PUBLIC BECOMES USED TO A MARTIAL LAW ADMINISTRATION.

16. OUTLOOK. THE MAJOR SHORT TERM FACTOR AS BANGLADESH TRIES TO COPE WITH ITS MASSIVE ECONOMIC DEVELOPMENT PROBLEMS IS POLITICAL STABILITY. ONLY IF THE PRESENT GOVERNMENT CAN MAINTAIN SUCH STABILITY WILL BUSINESS CONFIDENCE BOTH AT HOME AND ABROAD BRING BANGLADESH THE BENEFITS OF PRIVATE INVESTMENTS, WILL PROMISED EFFORTS TO IMPROVE DOMESTIC RESOURCE MOBILIZATION BE IMPLEMENTED, WILL OTHER EFFORTS TO BUILD ON THE FOUNDATION OF THE STABILIZATION PROGRAM SUCCEED IN INCREASING BANGLADESH'S OWN CONTRIBUTION TO ITS DEVELOPMENT, OR WILL THERE BE GROUND FOR COMPETENT, TRAINED BANGLADESIS TO CEASE EMIGRATING. HOWEVER, IT IS DOUBTFUL THAT A TEMPORARY GOVERNMENT CAN INSTILL THE CONFIDENCE AND SENSE OF CONTINUITY NECESSARY. WHATEVER STEPS THE MLA TAKES, THERE IS NO GUARANTEE THAT THEY WOULD BE CONTINUED AFTER THE INTERIM GOVERNMENT

IS REPLACED. WHEN ONE ALSO LOOKS TO SUCH A GOVERNMENT FOR A COMPREHENSIVE DIRECTION TO THE ECONOMIC DEVELOPMENT EFFORT, INCLUDING ACTION IN POLITICALLY SENSITIVE AREAS OF AGRICULTURAL TAXATION AND POPULATION CONTROL, AND THE CREATION WITH VERY LIMITED FOREIGN EXCHANGE RESOURCES OF A SUFFICIENTLY FAVORABLE CLIMATE TO HALT THE BRAIN LIMITED OFFICIAL USE

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DRAIN ONE IS EXPECTING A GREAT DEAL. SOME DECISIONS, INCLUDING IMPORTANT ONES IN KEY AREAS IDENTIFIED BY WESTERN AID DONORS, APPEAR LIKELY AND THOSE WILL BE HELPFUL. PERHAPS THAT IS ALL ONE COULD HAVE ASKED OF ANY GOVERNMENT, BUT IT IS SURELY ALL ONE CAN EXPECT IN THE YEAR TO COME.

17. IMPLICATION FOR THE US. (A) AID. MAJOR ISSUES ON WHICH THE US SPECIFICALLY, AND/OR DONORS GENERALLY, SEEK BDG ACTION, INCLUDE POPULATION CONTROL, REDUCTION OF RATIONED FOOD-GRAIN AND FERTILIZER SUBSIDIES, AND AID UTILIZATION DEVELOPMENT. IN ADDITION, THE FY '77 BALANCE OF PAYMENTS OUTLOOK IS BLEAK. EVEN WITH BDG DECISIONS BETWEEN NOW AND THE BANGLADESH AID GROUP MEETING IN MAY, THESE ISSUES WILL BE CENTRAL TO THE DISCUSSIONS THERE. DR. MD. IBRAHIM, ADVISOR ON POPULATION CONTROL ASSURES US THAT ACTION WILL

BE TAKEN ON THAT FRONT. WE HAVE BEEN ASSURED BY SEVERAL SENIOR BDG OFFICIALS, INCLUDING BANGLADESH BANK GOVERNOR AHMED AND PLANNING ADVISOR HUDA, THAT FURTHER GOODGRAIN SUBSIDY REDUCTION WILL BE ANNOUNCED. WE ARE PRESSING FOR REDUCTION OF FERTILIZER SUBSIDIES IN CONNECTION WITH OUR PROPOSED AGRICULTURAL INPUTS LOAN. THE WORLD BANK HAS BROUGHT, AND WILL CONTINUE TO BRING, THE PROBLEM OF AID UTILIZATION TO THE ATTENTION OF THE PRESIDENT, DCMLAS, PLANNING ADVISOR HUDA, AND SENIOR PLANNING COMMISSION OFFICIALS. SOME PROGRESS ON THOSE ISSUES WILL DOUBTLESS BE FORTHCOMING. MORE OMINOUS OVER THE COMING EIGHTEEN MONTHS IS THE BALANCE OF PAYMENTS SITUATION (DACCA 6247); HERE THERE IS LESS THE BDG CAN DO IN THE SHORT-TERM, OTHER THAN ANOTHER ROUND OF APPEALS TO DONORS. AS ONE HALF OF SUCH FREE FOREIGN EXCHANGE-FINANCED IMPORTS THIS FISCAL YEAR ARE BEING SPENT ON PETROLEUM, IT SEEMS MORE APPROPRIATE FOR THE US TO URGE THEM TO LOOK TO THE OIL-RICH ARAB STATES TO PLAY A MAJOR ROLE HERE RATHER THAN THE US, ALTHOUGH NEW FORMS OF TRANSFERS AND RESCHEDULINGS FROM IFI'S MAY BE FORTHCOMING AND/OR NECESSARY.

(B) FOOD AID. THE BOUNTIFUL AMAN HARVEST, CURRENT STORAGE PROBLEM, AND LOW RICE PRICE HAVE SHORT-TERM IMPLICATIONS FOR THE TIMING OF FY '76 US FOOD AID TO BANGLADESH WHICH WE WILL ADDRESS IN SEPARATE MESSAGE MID-JANUARY. HOWEVER, THE LONGER-TERM OUTLOOK, GIVEN THE CONTINUING GAP BETWEEN POPULATION GROWTH RATES AND INCREASES IN DOMESTIC FOODGRAIN SUPPLY, IS FOR A WIDENING GOOD GAP WHICH CAN ONLY BE MET BY AGGRESSIVE AGRICULTURAL PRICING AND PRODUCTION POLICIES AND BY IMPORTS, A LARGE OF PRO-LIMITED OFFICIAL USE

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PORTION OF WHICH THEY WILL
CONTINUE TO SEEK FROM THE US.

(C) PRIVATE INVESTMENT AND EXPORTS. THE PAST MONTHS OF POLITICAL
INSTABILITY AND THE UNCERTAINTY ABOUT THE TIMING AND OUTCOME OF
PROMISED ELECTIONS WILL DOUBTLESS LOOM LARGER IN THE MINDS OF ANY
POTENTIAL US INVESTORS THAN THE LIBERALIZED INVESTMENT POLICIES
JUST ANNOUNCED BY THE INTERIM GOVERNMENT. WE DOUBT THERE IS
SCOPE FOR ATTRACHING SUCH INVESTMENT OVER THE SHORT-TERM, EVEN IF
STABILITY IS MAINTAINED. THE FREE FOREIGN EXCHANGE OUTLOOK MAKES
IT OBVIOUS THAT THERE IS NO IMPORTANT SCOPE FOR US EXPORT SALES TO
BANGLADESH EXCEPT AGAINST FOREIGN AID-FINANCED TENDERS.

18. L'EVOI. MAYBE THEY'LL FIND OIL.CHESLAW

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, INTELLIGENCE ASSESSMENTS, POLITICAL SITUATION, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976DACCA00008
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760001-0204
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760191/aaaadcjn.tel
Line Count: 510
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 12 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 APR 2004 by ElyME>; APPROVED <13 APR 2004 by morefirh>
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EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANGLADESH ECONOMIC PERFORMANCE, 1975, AND PROSPECTS
TAGS: ECON, EFIN, EAGR, EAID, PINT, BG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006